

## LATAM Market Update

- **Mexico: GDP growth slows in 2018, Fitch downgrades Pemex to “BBB-” from “BBB+” and affirms its “negative” outlook**

According to its preliminary estimate, Mexico’s GDP expanded 1.8% y/y during 4Q18 (vs. +2.5% in 3Q18), well below the consensus forecast (+2.2%). From the report it follows that services continued to show signs of further deceleration (+2.9% q/q vs 3.2% previously), as industrial weakening persisted, now declining -0.7% q/q from 1.1%. On the other hand, primary activities, which have been volatile, accelerated to 2.8% from 2.2%. On a seasonally and calendar adjusted basis, GDP grew 1.9% y/y, while on its quarterly comparison a 0.3% q/q increase was registered (vs +0.8% in 3Q18).

The latest figures showed that GDP expanded 2.0% in 2018, keeping its downward trend for three consecutive years. Turning to the economic outlook, 2019 looks quite challenging for domestic activity, we expect uncertainty to prevail under the new political framework, significantly affecting both, investment and consumption.

On Tuesday, Fitch downgraded PEMEX Long-Term Foreign- and Local-Currency Issuer Default Ratings (IDRs) to “BBB-” from “BBB+”, while the outlook was affirmed at “negative”. The agency stated that the downgrade reflects the deterioration of PEMEX’s standalone credit profile (SCP), as a result of persisting negative free cash flows and material under-investment in the company’s upstream business. Furthermore, in Fitch’s view, the Mexican government’s recently announced support measure for PEMEX are not enough to offset the recent deterioration in the company’s SCP. This revision raised concerns, not only by the potential of further deterioration in Pemex’s credit profile, but for the likelihood of a downgrade to the sovereign in the short term, which has currently a “negative” outlook on its “BBB+” rating.

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